

D.T.E. 99-60 - Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil”)

Default Service Bid Evaluation Report

- (1) Small Customer Group
- (2) Medium Customer Group
- (3) Large Customer Group

REDACTED VERSION

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**Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil”)
Electric Default Service Bid Evaluation Report**

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Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil”) Electric Default Service Bid Evaluation Report (“Report”)

Introduction

On Wednesday, March 30, 2005, Unitil announced that its Request for Proposals (“RFP”) for default service for the period beginning June 1, 2005 was available.¹

The RFP implemented a competitive bid process that resulted in fixed monthly pricing for all three of Unitil’s customer groups, in accordance with D.T.E. 99-60. Unitil sought and purchased fifty percent (50%) of default service requirements for its Small Customer Group and Medium Customer Group for the twelve-month period of June 1, 2005 through May 31, 2006 in accordance with D.T.E. 02-40-B. Unitil also sought and purchased one hundred percent (100%) of default service requirements for its Large Customer Group for the three-month period of June 1, 2005 through August 31, 2005 in accordance with D.T.E. 02-40-C. Unitil’s Small Customer Group consists of rate classes RD-1, RD-2 and GD-1; Unitil’s Medium Customer Group consists of rate classes GD-2, GD-4, GD-5 and SD; and Unitil’s Large Customer Group consists of rate class GD-3.

The RFP sought bids that did not include Renewable Energy Certificates (“RECs”) for compliance with Renewable Portfolio Standards (“RPS”). Unitil will procure the RECs required for RPS compliance independent of its default service procurements. Unitil’s approach to compliance with the RPS obligations associated with its default service loads is described in the section labeled “Compliance with Renewable Portfolio Standards,” as required by D.T.E. 02-40-B.

¹ The term “default service” is used for procurement purposes and is used throughout this Report. However, default service supply will be delivered to retail customers as “basic service” in accordance with D.T.E. 04-115-A.

This Report describes Unitil's solicitation process and its selection of the winning bidders. A copy of the RFP is attached as Tab A. Unitil's comparison of bids, which is confidential and for which Unitil seeks protective treatment as described in the cover letter and motion for protective treatment accompanying this filing, is attached as Tab B. Broker sheets which report on the current market for Massachusetts Renewable Energy Certificates are attached as Tab C.

Solicitation Process

Unitil accomplished market notification of the RFP by announcing the availability of the RFP electronically to all participants in NEPOOL, in particular, to the members of the NEPOOL Markets Committee on Wednesday, March 30, 2005. In addition, Unitil announced the issuance of the RFP to a list of contacts from energy companies and interested parties who have previously expressed interest in receiving copies of Unitil's solicitations, including 55 individuals representing 26 separate energy companies, which count does not include other distribution companies, consultants (unless working of behalf of a named client who might participate), brokers or members of public agencies. The RFP documents were provided to interested parties using Unitil's corporate website (www.unitil.com/rfp). A copy of the RFP and its attachments is attached as Tab A.

The RFP described the particulars of Unitil's default service, the related customer-switching rules, and the form of power service sought. In order to gain the greatest level of market interest in supplying the load, Unitil endeavored to provide potential bidders with appropriate and accessible information as well as flexibility with regard to contracting options.

Along with the RFP, Unitil provided potential bidders with historic hourly loads served by Unitil as default service (either as standard offer service or default service) and those served collectively by competitive suppliers for the period January 1, 2003 through

March 27, 2005, for each customer group. This data was updated on April 11, 2005 for loads through April 7, 2005. Unitil also compiled into an Excel spreadsheet its historic DOER 110 reports from January 2000 through February 2005. The DOER 110 report details by customer rate class the number of customers and monthly retail billed kWh sales by rate class and supply type. This data was updated on April 11, 2005 to include data for the month of March 2005.

In order to communicate to bidders the relative concentration of the Large Customer Group, Unitil provided a listing of its 33 large (GD-3) customers, labeled generically, showing each customer's annual peak and energy requirements, their next meter read date and their current source of power supply (default service or competitive generation). Unitil also provided information instructing potential bidders in accessing class average load shape (8760 hours) data on Unitil's website. Lastly, Unitil provided estimated monthly loads for each customer group over the term of the period for which service was sought. Unitil used these estimated monthly loads to evaluate and weight competing bids for each customer group in terms of price.

In order to provide potential bidders with contracting flexibility, Unitil provided the option to contract under a proposed Default Service Power Contract or a proposed EEI Master Agreement Cover Sheet and Transaction Confirmation Letter. Unitil also indicated a willingness to tailor any existing contract that had previously been negotiated between Unitil and a bidder to fit the current transaction. Finally, Unitil included a copy of its Default Service tariff, effective as of the date of the solicitation. Throughout the solicitation, Unitil responded to bidder questions and actively participated in maintaining bidder interest in the solicitation through regular telephonic and electronic communications.

On Wednesday, April 13, 2005, Unitil received proposals from several different respondents that included detailed background information on the bidding entity,

proposed contractual terms and indicative pricing. Unitil reviewed the proposals and worked with the bidders to establish and evaluate their creditworthiness, their extension of adequate credit to Unitil to facilitate the transaction, their capability of performing the terms of the RFP in a reliable manner, and their willingness to enter into contract terms acceptable to Unitil. All bidders were invited to submit final bids.

On Tuesday, April 19, 2005, Unitil received final pricing from bidders who participated in the indicative round and conducted its evaluation. Unitil selected its winning bidders and all other bidders were notified that they were not selected.

Treatment of LICAP

Due to the continued litigation of final rules for the locational capacity (LICAP) market, Unitil recognized that there may be a great deal of uncertainty relating to the value of capacity after January 2006, when the LICAP market is expected to be implemented. Such uncertainty could lead bidders to include in their fixed price bids relatively high costs for the provision of capacity in 2006 in order to cover the risk that the LICAP market might result in higher capacity costs. Service sought for the Small Customer Group and Medium Customer Group extends through May 2006. Thus, Unitil entertained bids both including capacity costs and excluding capacity costs during the period January 2006 through May 2006. Unitil proposed optional contract language that facilitates the pass through of actual reasonable net costs associated with the provision of capacity in the event winning bids chosen excluded the provision of capacity during 2006 from fixed prices. The proposed contract language can be found in the RFP documents attached as Tab A at the following locations: page 9 of the RFP, pages 3-4 of the EEI Transaction Confirmation Letter (Appendix B of the RFP) and page 7 of the Default Service Power Contract (Appendix C of the RFP).

Some bidders provided fixed price bids for the January 2006 through May 2006 period that included the cost of capacity, some excluded the cost of capacity and some provided fixed pricing with and without the cost of capacity.

Selection of Winning Bidders

Unitil based its selection of winning bidders on both quantitative and qualitative criteria. Unitil evaluated bids for each customer group separately. When the indicative bids were received, Unitil compared the proposed pricing strips by calculating weighted average prices for the periods during which service was sought, using the evaluation loads that were issued to bidders along with the RFP. Unitil then coordinated with bidders to obtain the best contractual and credit terms each bidder was willing to offer to Unitil and to establish confidence in each bidder's ability to perform. When final bids were received, Unitil compiled the weighted average pricing strips, again using the evaluation loads that were issued to bidders along with the RFP. Unitil then evaluated the price and non-price aspects of the final bids received and awarded its default service load for each customer group to the supplier who provided the most overall value, in Unitil's estimation. The bid comparison, which is confidential, is attached as Tab B.

Compliance with Renewable Portfolio Standards ("RPS")

Consistent with its recent practices, Unitil did not request that interested suppliers include along with their bids the provision of Renewable Energy Certificates ("RECs") that would comply with the Massachusetts Renewable Energy Portfolio Standards ("RPS") that became effective on January 1, 2003. Unitil recognizes its obligation as the retail supplier of default service to its customers to provide RECs in compliance with 225 CMR 14.00. Unitil intends to purchase qualifying RECs directly from the market separately

from its default service solicitations. In compliance with DTE 02-40-B, a discussion of Unitil's approach to meeting its RPS obligations follows.

A number of factors come into play with regard to Unitil's approach to RECs compliance for its default service loads. Unitil believes that the market for Massachusetts qualifying RECs is currently illiquid, and that by the time Unitil is required to demonstrate compliance opportunities may arise to purchase RECs either from facilities that are not currently registered as qualifying Massachusetts new renewable facilities or from entities who come to have excess RECs after meeting their obligations. Unitil also expects that it may be able to receive more favorable RECs pricing if the periods for which RECs are sought are flexible. Unitil's ability as a load serving entity to bank RECs in its New England Generation Information System ("NE-GIS") account is expected to allow Unitil to utilize the RECs it acquires efficiently, rather than requiring pricing based on a specific delivery period.

Unitil considers that interested bidders in its default service solicitations are not necessarily the parties that hold title to RECs. Similarly, it is likely that some holders of RECs do not have the bulk power supply presence to compete for and win a default service solicitation. Meanwhile, nothing would prohibit a bulk power supplier from participating in a RECs only solicitation or brokered transaction. While there are secondary markets for RECs, they are not very liquid. Unitil prefers to go to these markets directly or to participate in periodic auctions directly rather than risk incurring mark ups which might accompany bids from default service suppliers who are simply remarketing the RECs.

Unitil believes it will be administratively more efficient to purchase and deliver RECs to its NE-GIS account independent of its default service procurement schedule since it

expects to have thirteen different default service contracts each year². Since Unitil's default service schedule does not fall on a quarterly basis, as does the schedule for demonstrating RPS compliance, additional administrative requirements result.

Unitil's approach with regard to establishing the cost of RPS compliance in its current retail rates for default service, as described in a filing under separate cover today, is to assume an estimated cost of compliance. Unitil's expected cost of RPS compliance is \$51.50 per REC for 2005 requirements. This estimate reflects the most recent trades of RECs as reflected on broker sheets by two separate brokers of Massachusetts RECs, as well as quotes received from sellers of RECs. One broker sheet, dated April 18, 2005, indicates a 2005 bid price of \$48.00, and offer of \$53.00 and a last transaction price of \$51.50, dated April 6, 2005. The other broker sheet, dated April 11, 2005, indicates a 2005 bid price of \$47.00, an offer of \$53.19 and a last transaction price of \$46.00, which Unitil believes occurred on November 1, 2004. Since a recent transaction price is available, and since the bid price and ask price shown by each broker are similar, Unitil believes the recent transaction price of \$51.50 is representative of the current market for 2005 RECs. The broker sheets are attached as Tab C.

² The thirteen Default Service contracts would be as follows: (1) Large Customer Group from Jan-Feb, (2) Large Customer Group from Mar-May, (3) Large Customer Group from Jun-Aug, (4) Large Customer Group from Sep-Nov, (5) Large Customer Group for Dec, (6) 50% Medium Customer Group for Jan-May, (7) 50% Medium Customer Group for Jan-Nov, (8) 50% Medium Customer Group for Jun-Dec, (9) 50% Medium Customer Group for Dec, (10) 50% Small Customer Group for Jan-May, (11) 50% Small Customer Group for Jan-Nov, (12) 50% Small Customer Group for Jun-Dec, (13) 50% Small Customer Group for Dec.